

M. & W. HELLER

GEGRÜNDET 1871

Sisal Market Report February 2021 - February 2022

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BRAZIL

Weather conditions in first half 2021 have been 'normal' – followed by a very dry season in August / September. Since October of last year, the country experienced strong rains which resulted in flooding in several parts of the state of Bahia in the Northeast of Brazil - however the negative impact on the Sisal production areas has been rather limited.

Farmers have become reluctant to do further investments in new Sisal plantations as there is still a lack of workers that are prepared to do the stressful work out on the fields. The problem of recruiting sufficient labour for cutting the sisal leaves is not only evident in Brazil, but also in all other sisal-producing countries.

Production in 2021 reached a level of abt.60.000 tons with a monthly export tonnage slightly exceeding 3.100 tons (*production 2019: 57,500 tonnes / 2020: 59,700 tonnes*).

The positive trend of the last few years continues in the export figures. Exports in 2021 accumulate to a total of approx. 37.900 tons and thus exceed the previous year (*2020 approx. 35.000 tons exported*).

The major importing countries in 2021 were:

China:	25.450 tons (67 %)
Portugal:	3.250 tons (8,6 %)
Algeria:	1.960 tons (5,2 %)
Mexico:	1.840 tons (4,8 %)
Indonesia:	1.250 tons (3,3 %)
India:	990 tons (2,6 %)
Egypt:	860 tons (2,3 %)
Spain:	800 tons (2,1 %)

The distribution among the importing countries shows a similar picture as in previous years - with a clear dominance of Chinese importers. The monthly average volume exported to China was approx 2.100 tons - however, exports peaked in December with 4.800 tons. This high export figure is to be seen in the context of the development on the freight market. Freight rates for shipments from Brazil to China had already risen steadily from September 2021 - added to this was a bottleneck in the availability of empty containers and irregular sailings. The Chinese importers did not want to take any risks and increased their orders accordingly (for shipments in December 2021).

Until the middle of 2021, Brazil had remained a positive exception with regard to the issue of freight increases and shortages of equipment. In the last quarter, however, the situation worsened. Freight to Asia has doubled or tripled (for most destinations).

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At the same time, cargo space became scarcer - not only to Asia but especially to Europe. As a result, many Brazilian spinning mills were stuck with produced goods - and could only load them with extreme delays (and at higher rates).

Shipments to Northern Europe and the Mediterranean were almost impossible to obtain for months - and if so, only at horrendous freight rates. Since the beginning of 2022, there have always been so-called 'spot rates', which demand a quick reaction in bookings. This makes long-term planning difficult.

Prices showed a peak in June / July 2021 – following the exchange rate of the Brazilian Real to the USD being lowest at 4,91 by the end of June. The rate has improved to an average of 5,50 / 5,70 in last quarter 2021 showing again a slight reduction in pricing.



The chart illustrates the exchange rate development of the last 12 months (*source: www.xe.com*)

Since the beginning of the year, the exchange rate has unfortunately only been pointing one way - downwards. At the end of February, it reached a level below 5 Brazilian Reals per US dollar again - as bad as it was in the middle of last year. In this context, bad means that the prices for raw fibre have risen again since the beginning of the year - by about 3-5%. Accordingly, the prices for yarns, cordage and fabrics are also rising.

The market for baler twine showed less exports in 2021 – with total abt. 14.300 tons – which is a significant reduction of about 15% (*2020 about 17.800 tons baler twine exports*).

Exports of yarns and ropes have been quite stable in the past three years with an average level of abt. 5.000 tons exported yarns and an average level of abt. 1500 tons in rope exports.

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At currently just over 10.6 %, the inflation rate in Brazil is among the highest in the major economies. At the same time, average income has continued to fall in recent years. The labour market is recovering only very slowly from the consequences of the pandemic, which forced many companies to close and left millions of Brazilians unemployed. About 12.4 million people remain out of work, according to the statistics agency. The prices of petrol and ethanol (which is commonly used in Brazilian cars), increased by 40 % and 60 % respectively in 2021.

President Bolsonaro has promised salary increases and topped up social welfare. Without the emergency payments Bolsonaro made during the pandemic, twice as many Brazilians would have been hit by extreme poverty in 2020. However, this additional spending could only be guaranteed because the president got Congress to pass a constitutional amendment which lifted limits on public spending that had been imposed by law since 2016. With this move, Bolsonaro has also made himself vulnerable to criticism from investors, as it would now be 'easy' to increase government spending.

In the last budget, Bolsonaro pushed through an additional \$300 million to increase the salaries of government employees - which is also arousing the appetites of other institutions. Uncertainty about future decisions on government spending may also be a reason for the depreciation of the real, which has fallen by 30% since Bolsonaro took office in 2019.

On 2 October 2022, Brazil will hold general elections to elect the president, vice president and national congress. Bolsonaro's poor handling of the pandemic and his constant clashes with institutions like Congress and the Supreme Court have left many Brazilians tired and yearning for change.

Clear majorities say in polls that they no longer trust their president or consider him capable of leading the country. The latest polls show Brazil's former president Luiz Inacio Lula da Silva extending his lead over Bolsonaro to 17 percentage points. If the election were held today, Lula would get 41% of the vote, while Bolsonaro would get 24%.

But the years under President Lula also had their dark sides, including numerous corruption scandals and economic dislocations that erupted under his elected successor Dilma Rousseff and led to the worst recession in Brazil's history from 2014-16. Lula's support is strongest among Brazil's poor and lower middle classes, especially in the northeast.

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KENYA

According to the Kenya Sisal Board (KSB), about 29,515 tons of sisal fibre and tow were exported in the period from January to December 2021 – a further increase to the previous year.

2019: abt. 22.300 tons
2020: abt. 28.770 tons
2021: abt. 29.515 tons

(source: Kenyan Sisal Board / KSB)

The countries of destination in 2021 were as follows:

Nigeria:	approx. 8,512 mt (28.8 %)
China:	approx. 2,990 mt (10.1 %)
Ghana:	approx. 2,900 mt (9.8 %)
Saudi Arabia:	approx. 2,730 mt (9.2 %)
Morocco:	approx. 2,375 mt (8 %)
Spain:	approx. 1,845 mt (6.25 %)
Egypt:	approx. 1,450 mt (4,9 %)
Philippines:	approx. 1,190 mt (4 %)
Libya:	approx. 670 mt (2.2 %)
Ivory Coast:	approx. 650 mt (2.2 %)
Maurintania:	approx. 480 mt (1.6 %)
India:	approx. 475 mt (1.6 %)
Togo:	approx. 440 mt (2.9 %)
Syria:	approx. 305 mt (1 %)
Guinea:	approx. 275 mt (0.9 %)

The most important export markets for sisal fibres from Kenya have remained unchanged (in the order of the first 7 destinations) for several years.

In 2021 exports to Nigeria have significantly increased by 20% (2020 abt. 7000 tons) while we see a huge decrease in volumes to China (-30%) and to Saudi-Arabia (-32%), compared to the volumes exported to these countries in 2020. Exports to Ghana show a large increase by abt. 50% (2020 abt.1900 tons).

The construction industry remains the most important market for Kenyan sisal fibre. Exports to Nigeria, Ghana, Saudi Arabia, Egypt, Morocco and also the comparatively smaller volumes to Libya, Ivory Coast, Mauritania, Syria and Togo - all together account for more than 70 % of the total exported volume.

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In addition, a part of the volume exported to Spain will also be re-exported to Morocco (also for construction industry).

Exports to the construction industry are predominantly long fibre in bales of 100 kg, of the grades UG and SSUG. Nigeria takes about 75% lower grade (SSUG) and 25% higher grade (UG). Ghana is an exception in the construction market with about 70% of the imports not being line fibres but only TOW#1 / TOW#2 (only about 30% exported to Ghana is line fibre of UG / SSUG).

As pointed out in the last report Nigeria serves as a hub for the construction industry to other West African countries with a constantly growing demand. This is quite remarkable as Nigerian ports are still highly congested, transit times from East to West Africa are long and also clearance at Nigerian ports is time taking.

Since September, large parts of northern Kenya have received less than 30 percent of normal rainfall. Droughts have always existed in this region, but since 1999 the frequency of droughts has doubled due to climate change. Three consecutive bad rainy seasons, in the arid and semi-arid areas of Kenya, have been exhausting the population living there.

In October 2021, some areas in coastal and south-eastern Kenya reported the worst rainfall since 1981. The worsening drought has significantly affected agricultural production, damaged livestock and left more than 2.9 million people in need of urgent humanitarian assistance. It is hoped that the 'long rainy season' (March to May) will be better than in previous years. The 'long rainy season' normally accounts for about 70% of the annual rainfall.

We have already gone into the background and effects of the IOD (Indian Ocean Dipole) phenomenon in previous market reports. It has long been scientifically proven that weather phenomena such as IOD or El Niño are caused by climate change.

Kenya enters the calendar year 2022 with positive energy, which is particularly important due to the election year. According to a World Bank assessment, Kenya's economy is expected to grow at an annual rate of 4.9 % in 2022 and 2023. However, the World Bank pointed out that the Covid 19 pandemic remains a major source of uncertainty. Despite the difficult times in the past two years, the Kenyan economy has proved resilient and is expected to maintain the pace in the second half of the 2021-2022 budget cycle. This follows a strong recovery in the first half of the 2021-2022 budget cycle, during which the country's economic performance reached, and in some cases exceeded, pre-pandemic levels.

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TANZANIA

After two years of steadily decreasing exports from Tanzania, the export volume of Sisal fibres has been rising again in 2020 and 2021.

2017:	approx. 25,000 tons
2018:	approx. 23,150 tons
2019:	approx. 20,000 tons
2020:	approx. 27,605 tons
2021:	approx. 28,900 tons

The importing countries in 2021 were (*source: Tanzania Sisal Board / TSB*):

China:	approx. 14,492 tons (50 %)
Saudi Arabia:	approx. 4,297 tons (15 %)
Nigeria:	approx. 1,592 tons (5.5 %)
Spain:	approx. 1,555 tons (5.4 %)
Morocco:	approx. 692 tons (2.4 %)
Gambia:	approx. 602 tons (2.1 %)
Guinea:	approx. 567 tons (2 %)
Ghana:	approx. 394 tons (1,4 %)
India:	approx. 258 tons (0.9 %)
Togo:	approx. 148 tons (0.5 %)

Exports to China have increased from 45% in 2020 to 50% in 2021. The volume exported to Saudi-Arabia remains almost on same level while exports to Nigeria have reduced significantly. Same time there is a rise in exports to other West African countries like Gambia and Guinea.

The Egyptian company Elsewedy Electric is building the "Elsewedy Industrial Complex" in the Tanzanian region of Kigamboni. The new regional production and export centre of the Egyptian Industrial City (EIC) is another milestone in the cooperation between Egypt and Tanzania. The new complex covers an area of 120,000 square metres and includes numerous facilities for the production of wires, cables and PVC as well as a 4,800 square metre logistics centre. Built with an investment of USD 35 million, the complex will not only produce the solutions and equipment required for Tanzania's 2025 manufacturing strategy, but will also create more than 50 000 jobs for engineers and technicians.

This milestone is the latest in a series of development projects in many African countries, the most notable of which is the Julius Nyerere Hydropower Project in Tanzania. This new dam will provide 2 115 MW of clean electricity to more than 60 million Tanzanians, while also stemming the flooding of the Rufiji River. The Julius Nyerere Dam on the Rufiji River is scheduled to be completed this year by the Egyptian construction company Arab Contractors.

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When completed, the dam could be Africa's fourth largest power generation facility - bridging the gap between those who have access to electricity and those who do not.

On 26 February 2022, Tanzanian President Samia Suluhu Hassan met with Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the United Arab Emirates (UAE) and Ruler of Dubai. The meeting took place within the Expo in Dubai. President Hassan said that her country is keen to deepen bilateral relations and enhance partnerships in various important fields to promote the mutual interests of both countries.

Following the meetings, the governments and private companies of the two countries signed a large number of memoranda of understanding for total investments of more than \$7.49 billion and an estimated 200 000 new jobs over a four-year period. Sectors to benefit from the agreement include energy, agriculture, tourism, infrastructure, transport technology and many more. President Samia Suluhu Hassan stressed that the country needs better education to encourage investment and produce efficient and modern products.

Plans for the construction of a port and special economic zone in Bagamoyo have been on hold since mid-2019. In November 2021 the Tanzanian Minister of Investment announced that the necessary preparations have been finalized on the governments side. China Merchant Holdings International (CMHI) and the Oman Investment fund (OIF) will finance the project and employ their technology and management – in cooperation with the TPA (Tanzania port Authority).

The expansion / rehabilitation of the port of Tanga, which was officially started a long time ago, has unfortunately not yet had any further positive impact. There are still delays in the departures of feeder ships and shortages of empty containers.

Frequent and prolonged droughts in the semi-arid areas of Tanzania are an expected phenomenon under current and future climate change and variability. The Tanzania Meteorological Authority (TMA) recently released a weather forecast indicating that most parts of the country will receive average or above average rainfall from end of February 2022.

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MADAGASCAR

Exports (ex port EHOALA) of sisal fibre and tow (according to statistics from Madagascar Customs) reached a total of approximately 5,970 tons for the period January to December 2021. This is slightly above volume exported the year before. Exports of unwashed, hand-decorticated Sisal fibres, shipped from the port of Tulear are included in the above figure.

Exports of sisal fibre from Madagascar have been constantly declining in the past years. Between 2005 and 2014, exports were still at 8,000 to 9,000 tons. Since 2017, exports decreased to a current level of only about 6,000 tons.

The importing countries in the period from January to December 2021 were:

China:	approx. 1,712 tons (28.7 %)
Morocco:	approx. 1,632 tons (27 %)
Spain:	approx. 1,080 tons (18 %)
India:	approx. 860 tons (14.5 %)
Ivory Coast:	approx. 256 tons (4.3 %)
Ghana:	approx. 143 tons (2.4 %)
Germany:	approx. 57 tons (0.96 %)
France:	approx. 93 tons
Reunion:	approx. 52 tons
HongKong:	approx. 50 tons
Quatar:	approx. 26 tons
Belgium:	approx. 25 tons

The first four places in the ranking have remained unchanged for a long time. The reduced volume of exports to Morocco (compared to 2020) is related to problems in shipping opportunities. The port of loading in Ehoala is only served by one shipping company - CMA-CGM. In the middle of last year, the shipping company radically reduced the service to various ports (due to problems / blockages in ports of transshipment). The increase in volumes to China and India are a result of this problem, as for a while only destinations in these two countries were served by the CMA. The CMA's policy still limits trade opportunities until today. There are also regular delays in feeder vessel departures and problems in the availability of empty containers.

Humanitarian organisations estimate that between 1.5 and 2.0 million people are currently in need of humanitarian food assistance in Madagascar, especially in the greater south. This is a result of several consecutive droughts. Extremely poor harvests are expected to continue in southern Madagascar, as significantly below-average rainfall at the start of the 2021/22 season led to drought conditions in large parts of the country.

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The expected below-average crop and livestock production and reduced labour opportunities exacerbate the already poor food situation throughout the Great South.

Very high staple food prices and previous years of drought in southern Madagascar have exhausted the capacity for many households. A large-scale humanitarian response is planned in southern Madagascar between February and April 2022, providing in-kind and cash assistance to nearly one million beneficiaries. Although this assistance is expected to mitigate the severity of acute food insecurity during the lean season, many people still face food gaps. Humanitarian aid is scheduled to end in April 2022 - however, the South will continue to rely on food assistance.

From October 2021 to mid-January 2022, southern Madagascar received 70 percent or less of normal rainfall, with some areas receiving less than 45 percent of normal rainfall. Rains in the second half of January have somewhat reduced rainfall deficits in the south and improved conditions in the rest of the country, but below-normal rainfall is predicted to continue in the south until March.

Madagascar is considered one of the countries most affected by climate change. The island nation is preparing for its fourth tropical cyclone in a month, UN aid agencies warned at the end of February as they unveiled plans to support authorities in helping the most vulnerable people. A spokesperson for the UN Office for the Coordination of Humanitarian Affairs (OCHA) said "we are in a race against time to protect those who have survived the first three extreme weather events from the impact of Emnati". Although it is typhoon season in the Indian Ocean, it is rare for four storms to hit the same country in four weeks.

While the north and central Madagascar suffer from storms and heavy rains (sometimes flooding) that cause considerable damage and cost human lives, the rains hardly reach the dry south.

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